

**Internal Revenue Service**

P.O. Box 2508  
Cincinnati, OH 45201

Release Number: **201619013**

Release Date: 5/6/2016

Date: **February 11, 2016**

**Department of the Treasury**

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

UIL: 4945.04-04

V =

W =

X =

Y =

Z =

b dollars =

c dollars =

d dollars =

Dear :

You asked for advance approval of your employer-related scholarship grant procedures under Internal Revenue Code section 4945(g). This approval is required because you are a private foundation that is exempt from federal income tax. You requested approval of your scholarship programs to fund the education of certain qualifying students.

**Our determination**

We approved your procedures for awarding scholarships and employer-related scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding employer-related scholarships meet the requirements of Code section 4945(g)(1). As a result, expenditures you make under these procedures won't be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in Code section 117(c)).

**Description of your request**

Your letter indicates you will operate two scholarship programs: (1) an employer-related nonrenewable scholarship program called X, which is open to the eligible employees of Y; and (2) a one-time nonrenewable scholarship program called W, which is open for all the eligible candidates among the general public.

### **X - Employer-related scholarship**

Your purpose is to establish a scholarship program to award scholarships to eligible employees of Y for undergraduate studies at any accredited two-, three- or four-year college or university for the entire academic year.

#### **Qualifications and Criteria**

Eligible applicants for the scholarship will have to meet the following criteria:

1. Be full-time or part-time employees of Y in the U.S., Canada (excluding Quebec), and Puerto Rico who have a minimum of one year employment with the company as of the application deadline date.
2. Be high school seniors or graduates or be current postsecondary undergraduates. Students outside the United States must be in their final year of upper or higher secondary school or be current technical or university level students.
3. Plan to enroll in full-time or part-time (minimum 6 credits) undergraduate study in an accredited two-, three- or four-year college or university for the entire academic year in any course of study.
4. Submit a one page essay in response to an essay question according to Y's corporate values as follows:
  - Compassion — for Y, this means recognize needs, show heart, give, acknowledge and reward contributions.
  - Respect — for Y, this means respect Y's customers, employees and partners, honor Y's heritage, and embrace the future.
  - Integrity — for Y, this means do the right thing, be open, honest and ethical.
  - Teamwork — for Y, this means communicate and collaborate, be accountable, empower and encourage one another.

The scholarship will be awarded on a nondiscriminatory and objective basis. No grant will be awarded to an officer, manager or trustee of V, or to a member of the selection committee at Z, nor to a substantial contributor to V, or to any family member of such aforementioned individuals.

#### **Program Selection**

V plans to use Z as an independent selection committee for the process of approval and selection of the award recipients. Z has established standard recipient selection procedures that V plans to use for its selection purposes, including consideration of academic performance, demonstrated leadership and participation in school and community activities, work experience, a statement of career and educational goals and objectives, unusual personal or family circumstances, and an outside appraisal. Essays will also be considered. Academic evaluation of international applicants will include a review of the grade/mark average based on the grading system used in the applicant's country and a review of the results of academic examinations. Financial need will not be

considered. Provided there are qualified applicants, recipients from Canada and Puerto Rico will be selected in proportion to the number of applicants.

### **Terms and Limitations**

It is anticipated that up to seven (7) scholarship awards will be made in each year and that each scholarship award will be b dollars. The award checks will be issued in U.S. currency. Awards will be non-renewable, but students may reapply to the program each year that they meet the eligibility requirements. Awards will be for undergraduate studies only. The scholarship program will not be used to recruit employees, induce employees to stay employed with Y or V, or follow any course of action sought by Y or V. The scholarships will not represent any compensation for the past, future or present services to Y or to V. Once awarded, scholarship's retention will not be contingent upon continued employment with Y or V. Employment with Y will not serve as a substantive determination criteria for the selection process except for being an initial qualifier.

In the initial award process, it is anticipated that Z will be obtaining a confirmation of school enrollment from each recipient of the award before the award checks are mailed out to grant recipients.

### **Funding**

V anticipates funding annually up to seven (7) awards of b dollars to each individual applicant selected, for a total of up to c dollars towards new awards annually.

### **Publicity**

It is anticipated that the scholarship introductory publication listing specific eligibility criteria will be developed with the assistance of Z. After that, the next phase will be implementing the publication materials into Y's intranet website or utilizing Z's website to disseminate such materials among the eligible group.

## **W - Public scholarship**

Your purpose is to establish a one-time nonrenewable scholarship program called W, which is open for all the eligible candidates among the general public pursuing undergraduate studies at any accredited two-, three- or four-year college or university for the entire academic year.

### **Qualifications and Criteria**

Eligible applicants for the scholarship will have to meet the following criteria:

1. Not be employees of Y or members of their families.
2. Be a citizen or legal resident of the U.S., Canada, or Puerto Rico.

3. Be high school seniors or graduates or current postsecondary undergraduates. Students outside the United States must be in their final year of upper or higher secondary school or be graduates of upper or higher secondary school.
4. Plan to enroll in undergraduate study in an accredited two-, three- or four-year college or university for the entire academic year in any course of study.
5. Submit a one page essay in response to an essay question according to Y's corporate values as follows:
  - Compassion — for Y, this means recognize needs, show heart, give, acknowledge and reward contributions.
  - Respect — for Y, this means respect Y's clients, employees and partners, honor Y's heritage, and embrace the future.
  - Integrity — for Y, this means do the right thing, be open, honest and ethical.
  - Teamwork — for Y, this means communicate and collaborate, be accountable, empower and encourage one another.

The scholarship will be awarded on a nondiscriminatory and objective basis.

No grant will be awarded to:

(a) An officer, manager or trustee of Y or V, nor to employees of Y and their children, nor to a member of the selection committee at Z, nor to a substantial class of contributors to V, nor to any other individual defined as a "disqualified person" with respect to V (as defined in IRC section 4945 or in the regulations promulgated thereunder—in either case, a "Disqualified Person"); or to (b) Any "family member," as such term is defined in IRC section 4946(d) and the regulations promulgated thereunder, of such Disqualified Person.

### **Program Selection**

V plans to use Z as an independent selection committee for the process of approval and selection of the award recipients. Z has established standard recipient selection procedures that V plans to use for its selection purposes, including consideration of academic performance, demonstrated leadership and participation in school and community activities, work experience, a statement of career and educational goals and objectives, unusual personal or family circumstances, and an outside appraisal. Essays will also be considered. Academic evaluation of international applicants will include a review of their grade/mark average based on the grading system used in the applicant's country and a review of the results of their academic examinations. Financial need will not be considered. Provided there are qualified applicants, recipients from Canada and Puerto Rico will be selected in proportion to the number of applicants. Z will use its computer-generated screening process to select eligible recipients based on self-declared academic information, leadership and participation in school and community activities and work experience. In the second phase of the screening process, Z will give full consideration to only those eligible applicants who return all required documents, including a transcript and applicant appraisal.

### **Terms and Limitations**

It is anticipated that up to fifteen (15) scholarship awards will be made in each year and that each scholarship award will be b dollars. The award checks will be issued in U.S. currency. Awards will be non-renewable but students may reapply to the program each year that they meet the eligibility requirements. Awards will be granted for undergraduate studies only.

Employees of Y and their children are not eligible to apply for the W. In the initial award process, it is anticipated that Z will be obtaining a confirmation of school enrollment from each recipient of the award before the award checks are mailed out to grant recipients.

### **Funding**

V anticipates funding annually up to fifteen (15) awards of b dollars to each individual applicant selected, for a total of up to d dollars towards new awards annually.

### **Publicity**

It is anticipated that the scholarship introductory publication listing specific eligibility criteria will be developed with the assistance of Z. After that, the next phase will be implementing the publication materials into Z's website. No information will be distributed via Y's intranet website.

### **Basis for our determination**

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is a scholarship or fellowship subject to Code section 117(a).
- The grant is to be used for study at an educational organization described in Code section 170(b)(1)(A)(ii).

Revenue Procedure 76-47, 1976-2 C.B. 670, provides guidelines to determine whether grants a private foundation makes under an employer-related program to employees or children of employees are scholarship or fellowship grants subject to the provisions of Code section 117(a). If the program satisfies the seven conditions in sections 4.01 through 4.07 of Revenue Procedure 76-47 and meets the applicable percentage tests described in section 4.08 of Revenue Procedure 76-47, we will assume the grants are subject to the provisions of Code section 117(a).

You represented that your grant program will meet the requirements of either the 25 percent or 10 percent percentage test in Revenue Procedure 76-47. These tests require that:

- The number of grants awarded to employees' children in any year won't exceed 25 percent of the number of employees' children who were eligible for grants, were applicants for grants, and were considered by the selection committee for grants, or
- The number of grants awarded to employees' children in any year won't exceed 10 percent of the number of employees' children who were eligible for grants (whether or not they submitted an application), or
- The number of grants awarded to employees in any year won't exceed 10 percent of the number of employees who were eligible for grants, were applicants for grants, and were considered by the selection committee for grants.

You represented that your procedures for awarding grants under this program will meet the requirements of Revenue Procedure 76-47. In particular:

- An independent selection committee whose members are separate from you, your creator, and the employer will select individual grant recipients.
- You will not use grants to recruit employees nor will you end a grant if the employee leaves the employer.
- You will not limit the recipient to a course of study that would particularly benefit you or the employer.

**Other conditions that apply to this determination:**

- This determination only covers the grant programs described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination is in effect as long as your procedures comply with sections 4.01 through 4.07 of Revenue Procedure 76-47 and with either of the percentage tests of section 4.08. If you establish another program covering the same individuals, that program must also meet the percentage test.
- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to your program to the Cincinnati Office of Exempt Organizations at::

Internal Revenue Service  
Exempt Organizations Determinations  
P.O. Box 2508  
Cincinnati, OH 45201

- You cannot award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.

- All funds distributed to individuals must be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

We've sent a copy of this letter to your representative as indicated in your power of attorney.

Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Jeffrey I. Cooper  
Director, Exempt Organizations  
Rulings and Agreements